Commodity Spotlight

USDA photo: Doug Wilson

Oats Market Strong In 2001/02

Oats are the least prominent of the feed grains, but rising prices have garnered a tremendous amount of attention. The 5-year average grain value of U.S. oats production between 1997 and 2001 was $200 million, compared with nearly $20 billion for corn. Despite the relatively small production, however, oats have been gaining attention lately as prices climb and buyers scramble to ensure supplies. The tight supply has been caused by weather problems in the upper Midwest, and in the oats-growing regions of Canada, Sweden, and Finland.

At one time, oats were one of the most important crops grown in the U.S., but production began a steep decline in the 1950s. In the early 1950s, planted acres for oats ranked fourth among all principal crops, exceeded only by corn, wheat, and hay. Production declines were brought on by emergence of the internal combustion engine, which greatly reduced the need for horse feed. The declining value of oats as a rotation crop, and the emergence of other crops that earn greater farm returns, are additional factors that explain the drop in oats acreage. The U.S. became a net oats importer in the early 1980s and currently imports about 30 percent of the total supply, primarily from Canada.

Oats have historically been a multipurpose crop grown for numerous uses other than for cash grain. Nongrain uses include hay, pasture, and silage. Oats work well as a companion crop with the establishment of a forage such as alfalfa. The whole grain, which is high in fiber, is used in horse or ruminant feeds but is not commonly used for hog or poultry feed. Some horse owners feel that horses need oats as part of their ration. However, oats can often be replaced with other grains when oats prices are high, which has happened this year. Oat hulls, a byproduct of the milling process, are also used in feed rations.

The de-hulled oat (known as the groat) is used in a variety of food products. Food consumption of oats increased dramatically in the 1980s when possible health benefits associated with oats were announced, especially the potential for oat bran to reduce cholesterol. In contrast to the feed market, oats food uses usually cannot be replaced with other grains. This inability to substitute helps explain why milled oats prices, especially for food-grade oats, have risen so much over the past year relative to other grains.

Long-Term Decline in Oats Acreage & Production

Oats production occurs in many states. However, because oats only do well in a relatively cool climate, their production is concentrated in the upper third of the U.S. The five states with the largest average oats production from 1997-2001 were North Dakota (19.1 million bushels), Minnesota (17.9 million bushels), Wisconsin (17.7 million bushels), South Dakota (13.8 million bushels), and Iowa (12 million bushels).

Average production figures from 1981-85 showed that the same five states were the top oats-producing states in the country (although in a different order). Oats production has steadily declined in these states because farmers are planting other crops with higher per-acre returns.

Major causes of shifts in farmer planting decisions are improved crop genetics and the planting flexibility provided by the 1996 Farm Act. Improved genetics for crops other than oats have led to expanded corn and soybean acres outside the traditional Corn Belt, which has cut into the production of all small grains, including oats, in these areas. Of the five major oats-producing states, this change has most affected northwestern Minnesota and the Dakotas. For example, 2001 harvested soybean acres in North Dakota were 2.1 million acres, up 325 percent from 1990; harvested area for North Dakota corn in 2001 was 705,000 acres, up more than 50 percent from 1990. By contrast, oats acres in North Dakota declined 60 percent between 1990 and 2001.

Improved genetics have increased crop options, and planting flexibility enables farmers to base planting decisions on economic reasons. Under traditional farm legislation, planting decisions were determined to a large extent on the farmer's base acres for different program commodities, including oats. However, after the 1996 Farm Act, farmers were able to plant virtually any crop on their contract acreage without losing program benefits.

As of this writing, House and Senate farm bill conferees were still working out the language of the legislation.

Also, with the elimination of acreage reduction programs under the 1996 Farm Act, oats are no longer planted as a cover crop on acreage idled under annual farm program provisions.

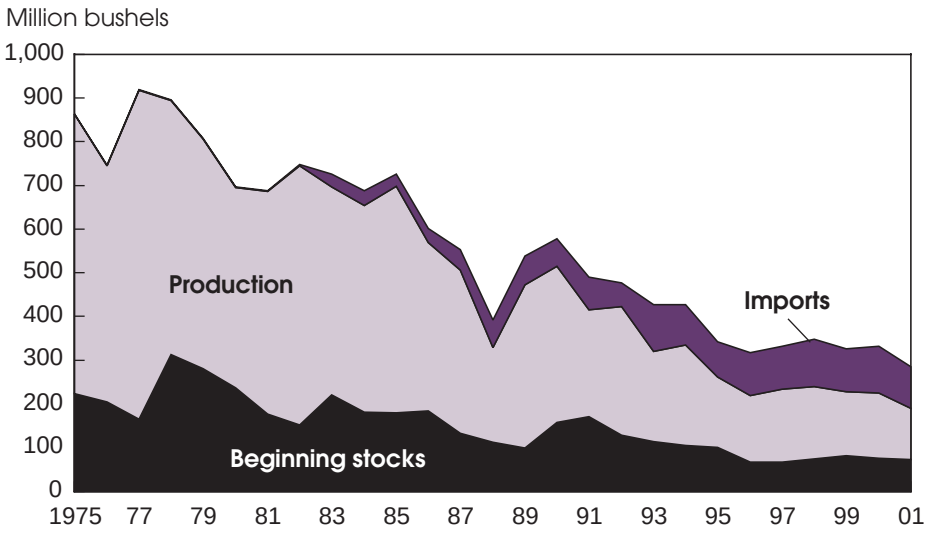
With planting flexibility, farmers have been free to plant the crops that provide the highest market return. In the current marketing year, national average farm returns over variable costs (including government marketing loan benefits) are estimated to be $118 and $137 per acre for corn and soybeans, respectively, compared with $44 for oats. Although farmers outside of the traditional corn and soybean growing regions may have lower net returns for corn and soybeans and higher returns for oats, there has been a clear economic incentive for farmers who at one time planted oats to now plant other crops.

In contrast to the U.S., recent oats production has been rising in Canada. Like the U.S., Canadian production had begun declining in the 1950s, although it trended upward during the 1990s. About 90 percent of Canada's oats are grown in the western provinces, mainly Saskatchewan (with about 40 percent of total Canadian production), Manitoba (25 percent of total production), and Alberta (more than 20 percent of total production). The growing need for U.S. imports is the primary reason for the increase in Canadian oats production. In addition, several U.S. mills have relocated to Canada in order to have a milling presence in a primary production region.

U.S. oats supplies in the 2001/02 marketing year are down from last year because of lower beginning stocks and a decrease in production and imports. Production in 2001 was 117 million bushels—33 million below 2000—the lowest production since records were first kept in 1866. Decreased planted area, harvested area, and yields all contributed to the decline in production. Planted acreage, at 4.4 million acres, was down nearly 2 percent from 2000, and harvested acreage was down 18 percent to 1.9 million acres. Oats yields in 2001/02 were 61.3 bushels per acre, down from 64.2 bushels in 2000/01.

Weather problems affected oats-growing areas throughout the growing season.

Oats Supply Has Become More Dependent on Imports



Source: Foreign Agricultural Service and National Agricultural Statistics Service, USDA.

Economic Research Service, USDA

The planting season began slightly later than normal and much later than the early start in 2000/01. Moisture shortages hindered germination and early growth in parts of the eastern Corn Belt, and below-normal precipitation limited crop potential in parts of the western Corn Belt, Great Plains, and Pacific Northwest during the summer. Cool weather in late May and early June hindered development across most of the Corn Belt and northern Great Plains. At the end of June, just over one-half of the acreage was headed, compared with the historical average of nearly two-thirds.

Harvest began late and progressed behind normal in Iowa, Minnesota, Nebraska, South Dakota, and Wisconsin. In the eastern Corn Belt and Northeast, ideal temperatures and mostly adequate moisture supplies aided late-season development. The harvest season in Ohio and Pennsylvania progressed ahead of the 5-year average.

According to the 2002 *Prospective Plantings* report, growers intend to plant 5.1 million acres and harvest 2.5 million acres in 2002/03. If realized, this would be a 16-percent increase in planted area and a 33-percent increase in harvested area. This would reverse 4 straight years of acreage declines (both planted and harvested) and would be the largest oats acreage planted since 1998/99. Rising price is the main factor behind increased area prospects for 2002/03.

Low Import Supplies Have Raised Oats Prices

Imports in 2001/02 are expected to total 95 million bushels, down from 106 million in 2000/01, because of reduced production in the major exporting countries. The U.S. imports oats primarily from Canada, with lesser amounts from Finland and Sweden. All three countries tend to have cooler summers that are conducive to production of the heavy white oats favored by the food processing industry and many horse enthusiasts. Imports are forecast to comprise about one-third of the U.S. oats supply in 2001/02.

Total oats use in 2001/02 is expected to equal 230 million bushels, down 29 million from a year earlier. Ending stocks are forecast down 25 percent from the 73 million bushels in 2000/01. Food and seed use is expected to increase 4 million bushels above the 2000/01 level. Feed and residual use in 2001/02 is expected to be down 34 million from the 189 million bushels used in 2000/01.

Prices received by farmers for oats in 2001/02 are expected to average about

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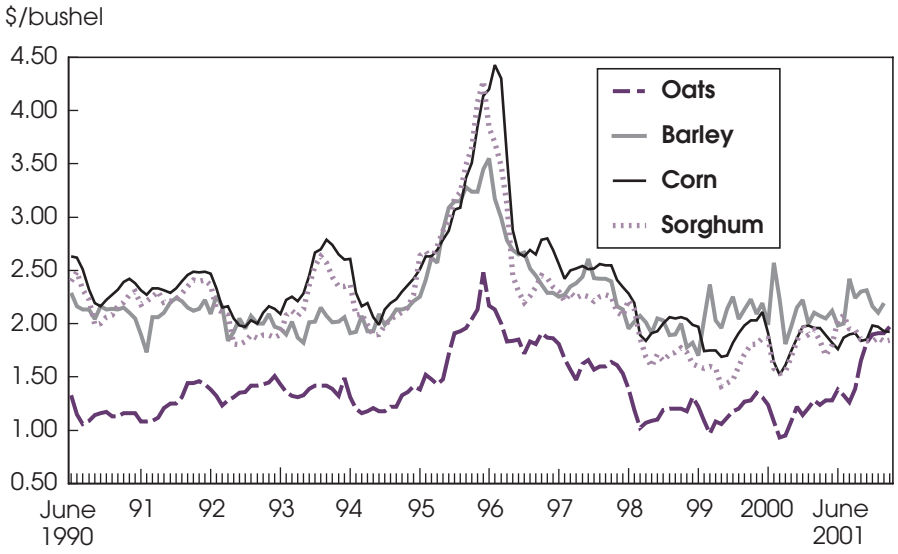
Average Farm Prices for Oats Rising Relative to Other Feed Grains



Source: National Agricultural Statistics Service, USDA.

Economic Research Service, USDA

$1.55 per bushel, compared with $1.10 in 2000/01. Average prices from June 2001 through March 2002 were $1.62, compared with $1.13 during the same period last year.

Global Production Increased In 2001/02...

Global oats production in 2001/02 is estimated at 26.7 million tons, up 4 percent from last year and the highest since 1997/98. Most of this increase came from the former Soviet Union and Eastern Europe. Russia, the world's largest oats producer, produced 7.7 million tons in 2001/02, up from 6 million tons last year. Virtually all of this output will be consumed in Russia. Production also increased in Ukraine and Belarus. Eastern European production increased 17 percent to 2.3 million tons, with most of the gain in Poland.

Partly offsetting these increases are drops in Canada and the European Union (EU). Production in the EU is estimated at 6.5 million tons in 2001/02, down 6 percent from a year earlier. Finnish production is up slightly at 1.3 million tons; Swedish production dropped 150,000 tons to 1.15 million.

Canadian oats production for 2001/02 is estimated at 2.8 million tons, down from 3.4 million the previous year. Drought conditions throughout the Canadian prairies and excessive moisture in parts of Manitoba led to a 17-percent decline in yield and a nearly 2-percent decline in harvested area. A combination of the short U.S. crop and the drop in Canadian production led to the tight supply situation, which sent oats prices skyward. Continued dryness in Saskatchewan and Alberta is causing concern about the upcoming crop.

The drop in Scandinavian oats production had an impact on the U.S. market. However, the primary international factor affecting the U.S. was the production shortfall in Canada, the largest oats exporter to the U.S.

...but World Trade Is Projected to Decline

Oats are a thinly traded commodity where most of the world production is consumed in the country of origin. Despite larger overall production, total oats trade is projected at 1.9 million tons in 2001/02, down 15 percent from 2000/01. Canada's production decline is behind the drop in world trade, and North American production problems have required the U.S. to look for other sources of oats imports.

In response to the drop in Canadian and U.S. oats production, U.S. importers have increased the quantities purchased from nontraditional sources and have "front-loaded" imports to the early part of the marketing year.

Finland and Sweden are major oats suppliers to the U.S., although they also have major markets elsewhere, and production dropped for 2001/02. On an October-September basis, the U.S. is projected to import 1.2 million metric tons in 2001/02, down from 1.8 million last year and the lowest since 1995/96. However, for October to December (the first quarter of the marketing year) total imports were 611,000 tons, up 27 percent from the same period in 2000/01 and the highest since 1997. Canadian exports to the U.S. from October to December were 462,000 tons, up nearly 7 percent from the prior year. Scandinavian exports to the U.S. were also up for the October-December period.

Import pace is rapid because buyers, concerned that supplies will become even tighter, are making their purchases earlier. Because of the tight supplies, imports are expected to decline significantly in the latter part of the marketing year.

World stocks are projected to increase due to larger global production (increases in the Former Soviet Union and Eastern Europe), but stocks from the major U.S. trading partners are projected to decline significantly. Canadian oats stocks are projected at 500,000 tons, down 40 percent from last year and the lowest since 1995/96. EU stocks are projected to increase, but quantities of high-quality milling oats are limited. Tight stocks could have a serious impact on the U.S. market if continued dryness in the oats-growing regions of Canada and the U.S. leads to low production in 2002/03. AO

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